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The Rogers Young Investment Group*

POSITIVE SENTIMENTS...

An End to the Recession?

Is the recession really at an end? A number of authorities have suggested this possibility — among them, the governor of the Bank of Canada and the head of the U.S. Federal Reserve.

Equity markets are pointing in the same direction. So far, in 2009, North American stocks seem to have ignored the old standby to “sell in May and go away.” Since the mid-winter lows, prices have recovered 50 percent or more in many industries.

The positive forecasts were not made by our monetary leaders in a vacuum. The housing sector appears to be on the road to recovery, with home sales and prices on the rebound in many communities. Corporations are reporting financial results that generally exceed expectations, though not necessarily always on the positive side of the ledger. And surveys of business leaders suggest they feel increasing confidence about future business conditions compared to what they felt in the recent past.

Whether the actual economic recovery will continue to follow the script is difficult to predict. Over the past year or so, we have confronted difficult business conditions that are unprecedented in recent times. World leaders have responded in kind — many observers suggesting that the sometimes draconian measures undertaken may have averted a more serious depression.

Challenges lie ahead. For example, the massive deficits rung up by North American and European governments portend higher interest rates, inflation and other problems over the next few years. Many of these can be expected to have repercussions for stock price levels, regardless of how authorities deal with them.

Generally speaking, however, the investment climate is much more positive today. As individual investors, how are you facing up to these challenges and potential opportunities? Each of us has distinct targets, whether they are for retirement, future education, or another worthwhile cause.

The key is to look ahead, not into the past. Peer beyond the current headlines and take advantage of the situations that arise. Inside this issue, we discuss several investment areas and subjects that you might consider for your own portfolio. Should one of them spark your interest, feel free to give us a call to discuss it in more detail. We would be happy to help you with any investment situation.

ON RESPS, AND MORE

SAVING FOR EDUCATION

University education is a choice of many who have been affected by the current recession. The lack of jobs in the marketplace has prompted many to return to school, seeking the potential opportunities offered by advanced degrees, particularly MBAs.

Press articles highlight the fact that many students in both Canada and the United States have burdened themselves with relatively huge debts in the course of their education. With no other sources of financial help, they have taken out student loans and are counting on future earnings to dig themselves out of a potential hole. Unfortunately, the road to fiscal balance is a tough one to travel, particularly when starting out in a career.

As investors, we have the opportunity to assist our children with their education at all levels. For starters, we can provide advice about money, teaching them about the fundamentals of saving, investing and taxes, if this is not provided in their usual school programs. We can also choose to put aside our own resources in specific programs that have been provided for the purpose.

Registered Education Savings Plans

A Registered Education Savings Plan, or RESP, is an excellent starting point. Under this federal plan, up to \$50,000 can be contributed per child beneficiary. (Plans can be opened for an individual or a family.)

While contributions to an RESP are not tax-deductible, investment income within such a plan is tax deferred — that is, no taxes are payable while the assets remain in the plan. When payouts to the student for approved educational purposes are made, only then will income taxes be levied, and in the hands of the child. Presumably, the student will have a low tax rate, so the taxes owing should also be low or non-existent. Approved educational purposes include most post-secondary courses offered by educational institutions in Canada or the U.S.

A key attraction is the Canada Education Savings Grant (CESG) within the RESP program. The maximum annual contribution that qualifies for the 20 percent CESG is now \$2,500 per year per beneficiary. The maximum annual CESG is, therefore, \$500. For those who have delayed opening an

RESP and, who might, therefore, have “unused” CESGs, the maximum CESG payable is \$1,000, based on a \$5,000 contribution. The maximum lifetime CESG per beneficiary is \$7,200. CESGs are paid directly into the RESP automatically — no additional applications are required.

Other federal enhancements are available for low-income families, and certain provinces have introduced additional programs for their own residents. Call for full details or to set up an RESP for your family’s needs.

Other Timely Assistance

MOVING EXPENSES — Make sure your student keeps good records when attending school. Remember that moving expenses may be deductible if the school is beyond 40 km from home. Moving expenses can offset any income that a child may have from employment, self-employment or scholarships and grants. If there is insufficient income to offset all of the associated moving expenses, excess amounts may be carried forward to offset any eligible income earned in the next year.

LIFELONG LEARNING PLAN — Should you be thinking of going to school yourself, the Lifelong Learning Plan (LLP) can be helpful in saving or deferring taxes. Under this measure, RRSP savings can be withdrawn to be used for eligible full-time education or training. Individuals can withdraw up to \$10,000 per year (\$20,000 maximum over four years) of RRSP assets. Withdrawals above this amount will be taxed as ordinary income.

Don’t Forget the Basic Tax Breaks

Remember that tuition fees over \$100 can be claimed as a tax credit for post-secondary college or university programs, as well as courses you may take at an accredited institution that contribute to improving your occupational skills. In addition to tuition, students may be eligible to claim an educational amount of \$400 per month for full-time enrolment or \$120 per month for part-time enrolment. Provincial tax credits may also be provided, depending upon the province. Tax credits for textbooks and transit passes may also be claimable by the student. Remember that any unused credits may be transferred to a parent or spouse, or carried forward to be used in future years.

A SMALLER WORLD, ACCORDING TO JEFF RUBIN

CONSEQUENCES OF HIGHER OIL PRICES

Economists seem to bear the brunt of much criticism, particularly whenever their predictions are at odds with popular thinking.

David Rosenberg, as chief economist for Merrill Lynch, consistently forecast a problem with U.S. economic growth prior to the onset of the current recession. He was often greeted with derision in his speaking engagements (even before his own colleagues). He was a minority voice but, of course, eventually proven right.

Jeff Rubin was the chief economist for CIBC World Markets, and earlier forecast triple-digit oil prices. Before that, he predicted a drop in Toronto real estate prices of 25 percent, at a time when commercial real estate in that city was booming. Both were unpopular stances, but have also proven to be correct.

Now an independent author, Mr. Rubin is enjoying considerable popularity with Canadian readers. In his book *Why Your World Is About To Get a Whole Lot Smaller*, he makes his argument as to why the economics of the world will change perceptibly in the years to come. Key to Rubin's thinking is the price of oil, which he feels is headed inexorably higher. In a world of triple digit oil prices, we may see gasoline prices of US\$7 per US gallon (that's approximately \$2 per litre in Canadian dollar terms, about twice today's level at the pumps,

but not too different from European prices). This will have surprising consequences to many sectors, for example:

- > There will be a shift in the makeup of North American cities that are becoming more centralized entities with less emphasis on suburbs, increased use of public transit and decreased reliance on the automobile as the central focus of transportation.
- > We will see a return to local markets for a wide range of products that are now manufactured or assembled in Asia. The high cost of transportation will be the dominant factor in determining, for example, where steel is made, or whether New Zealand lamb remains popular here. The cost structure of steel has been shifted by high shipping costs to such an extent that North American production is already competitive in price with Chinese products.

Rubin's book is a wide-ranging look at a number of important topics. The recent round of economic stimulation needs to be paid for in some way. What will be the effect on taxes? Inflation is a key factor that needs to be addressed by all investors. What should we expect? How can greenhouse emissions be controlled so that everyone plays by the same rules? (Answer: not by voluntary regulations, but by a carbon tariff.) There is much more in this book. Not easy reading, but certainly appropriate to the informed investor.

TAX FREE SAVINGS ACCOUNT

HAVE YOU SET UP A TFSA SUCCESSOR OR BENEFICIARY?

Most provinces now allow the Tax-Free Savings Account (TFSA) holder to appoint a successor or beneficiary. Have you taken this step? Naming a successor or a beneficiary can have various benefits in the event of the death of the holder.

When the holder of the TFSA dies, he or she is considered to have received the fair market value of the TFSA immediately before death. Any earnings that are incurred after the holder's death are considered taxable to beneficiaries. If no successor or beneficiary has been named on the account, the TFSA funds will become part of the deceased holder's estate and will be taxed accordingly.

Here are some benefits and rules to consider:

- > Naming a successor or beneficiary potentially saves on probate fees associated with an estate.
- > In addition to potentially saving on probate, named successors effectively become the owner of the TFSA upon the holder's death.

- > The successor can continue to hold and operate the TFSA as his or her own and will not be taxed on the TFSA holdings. A successor must be a spouse or common-law partner.
- > If a spouse or partner is named as a beneficiary for the TFSA, and not the successor holder, the beneficiary cannot continue to operate the TFSA as his or her own.
- > Instead, the beneficiary has until December 31 of the year following the death to contribute any payments received from the deceased holder's TFSA into his or her own TFSA. This does not count towards any unused contribution limit of the beneficiary's own TFSA, as long as a form is filled out with the Canada Revenue Agency (CRA) within 30 days of the contribution date. Any earnings incurred between the date of the holder's death and the date of transfer will be considered taxable income.

The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

TAX MINIMIZATION

YEAR-END TAX STRATEGIES

Proper year-end planning can help to minimize taxes and maximize your financial position.

The year 2009 will soon come to an end. It may be helpful to think about steps you will be taking to help you minimize the amount of tax you need to pay this year. As always, seek advice from a professional regarding your personal situation.

Tax Loss Selling

Before the end of the 2009 calendar year, you may wish to consider selling shares to realize losses for the 2009 year in order to take advantage of tax relief associated with capital losses. Trades must settle before the end of the year, so it will do no good to execute the trade on New Year's Eve. Think ahead.

If your capital losses exceed your capital gains in 2009, there is an opportunity to recover income taxes that you may have paid in the past. A net capital loss realized in 2009 can be carried back and applied against any capital gains realized in three preceding years: 2006, 2007 and 2008. Although you may choose which year you wish to apply the loss towards, it may make sense to choose the earliest of the three years as this tax year will not be eligible next year. If losses aren't carried back, they can also be carried forward indefinitely to reduce future taxable capital gains.

If your spouse or common-law partner has realized capital gains or losses that can offset your own, these securities may be transferred between partners to take advantage of these tax rate differences. Remember that tax loss selling only applies to realized losses for taxable or non-registered portfolios.

Remember, also, that the identical security may not be repurchased within 30 days of sale in order for the tax loss to be claimable. Otherwise, the Canada Revenue Agency (CRA) will disallow the loss for tax purposes.

Income Splitting

If you and your spouse are in different tax brackets, income splitting is an effective way to minimize total taxes paid.

The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances. The views and opinions in this article are that of the author and not necessarily representative of those of Blackmont Capital Inc. (BCI). The content of this article was prepared under contract by Hirasawa & Associates. The statements and statistics contained in this publication were obtained from sources believed to be reliable, but we cannot represent that they are accurate or complete. This material is published for general information only. The publishers and BCI assume no liability for financial decisions based on this information. Readers should obtain professional advice before applying any ideas mentioned to their own personal situation to ensure their individual circumstances have been properly considered. Blackmont Capital Inc. — Member CIPF and IIROC.

Pension income is eligible for income splitting, and when income is split from a qualifying registered plan, both partners are eligible to claim a pension credit of \$2,000 per year. An individual can also make a bona fide loan to his or her lower-income spouse for investment purposes. This loan must be documented and interest must be paid within 30 days of the year-end. This interest counts as taxable income for the loaning spouse.

Charitable Gifts

When considering donations to registered charitable organizations you may wish to make within the 2009 year, gifts "in kind" may offer improved tax benefits for you. In kind gifts, such as shares, artwork, or real estate, are usually valued at fair-market value at the time of donation. Given recent market turbulence, a donation of in kind shares that have fallen in value will generate a capital loss and you will also receive a donation receipt for the fair market value of the donated stock. Conversely, you may wish to donate securities to avoid capital gains.

Tax-Free Savings Account (TFSA) Contributions

Although there is no deadline for TFSA contributions, there may be good reason to set up and contribute to a TFSA. It offers tax-free savings on after-tax contributions, so although your 2009 tax form will not be affected by any TFSA contributions, there may be great incentive to contribute.

For example, by allocating your most aggressive long-term investments to a TFSA, you may have the potential to achieve greater tax savings as these investments grow over time. Of course, individual situations vary and we would be happy to review your situation to determine your best options.

Investment Expenses

Don't forget that any investment related expenses, which may range from larger expenses such as advisory fees to smaller charges such as safety-deposit box rental fees, must be paid by the end of the year to be deductible.